

Message Text

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ACTION OPIC-06

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TAGS: EFIN, IN

SUBJ: POTENTIAL OPIC LOANS TO HINDUSTAN ALUMIC
CORPORATION

REF: STATE 099916

1. BEGIN SUMMARY. WE APPRECIATE OPIC'S REQUEST FOR EMBASSY COMMENTS
BEFORE PROCEEDING ON DISCUSSIONS WITH KAISER. WHILE
WE THINK THE OVERALL PACKAGE IS BOTH UNFEASIBLE AND
UNDESIRABLE AT THIS TIME WE WOULD WELCOME POSSIBLE OPIC
INVOLVEMENT IN THE SALE OF US EQUIPMENT. END SUMMARY

2. IN VIEW OF EXISTING EXIM AND COOLEY LOANS TO HINDALCO
WE HAVE FOLLOWED HINDALCO'S FINANCIAL POSITION IN SOME
DETAIL AND WE HAVE LONG BEEN AWARE OF AND TO SOME EXTENT
INVOLVED IN HINDALCO'S EFFORTS TO OBTAIN ADDITIONAL
CAPTIVE GENERATING CAPACITY.

3. RECENTLY HINDALCO RECEIVED GOI PERMISSION TO
IMPORT A 120 MW THERMAL PLANT FOR FREE FOREIGN EXCHANGE
PROVIDING THAT "REASONABLE" FINANCING COULD BE OBTAINED
THE GOI ALSO STIPULATED THAT THE PLANT MUST BE COMMISSIONED
30 MONTHS FROM THE DATE OF THE IMPORT LICENSE. HINDALCO
HAS DISCUSSED MATTER WITH GE, THE ONLY US SUPPLIER LIKELY
TO BE ABLE TO MEET THIS REQUIREMENT. GE IS WILLING TO
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SUPPLY THE PLANT IF HINDALCO WOULD ARRANGE FINANCING

AND AGREE TO PAY ANY PENALTIES FOR LATE COMMISSIONING. FURTHER GE/HINDALCO DISCUSSIONS MUST AWAIT A HINDALCO DECISION ON WHETHER IT IS PREPARED TO FINANCE GE ENGINEERING DESIGN WORK.

4. WE WOULD, OF COURSE, LIKE TO ASSIST IN THE SALE OF US EQUIPMENT BUT WONDER IF AN OPIC GUARANTEE WOULD IN ITSELF BE ADEQUATE. US BANKS REPRESENTED HERE WOULD BE WILLING TO FINANCE SALE AT TWO PERCENT OVER PRIME IF THERE WERE A 100 PERCENT OPIC GUARANTEE. NO RESIDENT BANK WOULD LEND TO HINDALCO WITHOUT SUCH A GUARANTEE (SEE BELOW). WITH PRIME AT 7.5 THE OPIC PACKAGE WOULD COME TO ROUGHLY 10.25, A RATE UNLIKELY TO BE ACCEPTABLE TO THE GOI. A MORE ATTRACTIVE PACKAGE WOULD INVOLVE EXIM 40 PERCENT PARTICIPATION WITH THE REMAINING 50-60 PERCENT GUARANTEED BY OPIC. THERE IS NO CLEAR PATTERN AS TO WHAT RATE WOULD BE ACCEPTABLE TO THE GOI BUT OUR GUESS IS 8.5 - 9.5 PERCENT.

5. IN CONSIDERING ANY FINANCING PACKAGE OPIC SHOULD BE AWARE THAT HINDALCO IS IN SERIOUS FINANCIAL DIFFICULTIES. GOI PRICE CONTROLS KEEP PRICES SO LOW THAT HINDALCO AT PRESENT IS NOT EVEN MEETING ITS VARIABLE COSTS. SO FAR HINDALCO HAS REPAID IA COOLEY AND EXIM CREDITS BUT IT IS QUESTIONABLE WHETHER THIS CAN BE MAINTAINED UNLESS PRICE INCREASES ARE PERMITTED. THESE HAVE BEEN RUMORED FOR MONTHS BUT ARE NOT YET IN EFFECT. THE GOI DECISION MAY NOT BE BASED SOLELY ON ECONOMIC GROUNDS AND MAY NOT BE COMPLETELY RATIONAL.

6. GOI APPROVAL WOULD CLEARLY ALSO BE REQUIRED FOR A RUPEE LOAN TO HINDALCO. INFORMAL SOIBNDINGS WITH THE GOI INDICATE THAT SUCH A LOAN WOULD NOT BE APPROVED SINCE IT WOULD TEND TO UNDERMINE THE RESERVE BANK'S CURRENT CREDIT SQUEEZE POLICY. WE ALSO HAVE OUR DOUBTS AS TO THE DESIRABILITY OF THE USG GOING BACK INTO THE RUPEE LENDING BUSINESS IN INDIA. CONVERTIBLE DEBENTURE PROPOSAL FACES THE SAME PROBLEMS.

7. WHERE DOES THIS LEAVE US? WE WOULD LIKE TO SEE US EQUIPMENT SOLD BUT COULD NOT SUPPORT OPIC INVOLVEMENT UNTIL LIMITED OFFICIAL USE

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HINDALCO BECOMES COMMERCIALY VIABLE, I.E., PRICE INCREASES ARE PERMITTED. WE NOTE THAT GE IS SO DUBIOUS ABOUT HINDALCO'S CASH POSITION THAT IT WOULD ASK FOR PAYMENT FOR EACH COMPONENT WHEN SHIPPED. HINDALCO IS ALREADY IN DEFAULT ON AN EARLIER GE SUPPLY CONTRACT. WE SEE LITTLE POSSIBILITY AND DESIRABILITY FOR OPIC RUPEE FINANCING. WE SUGGEST OPIC CONTINUE TO TALK TO KAISER AND TRY TO DETERMINE WHETHER AND WHEN ADEQUATE PRICE INCREASES WILL

BE PERMITTED BY THE GOI. IF THE PRICING SITUATION CAN
BE RESOLVED OFFSHORE FINANCING SHOULD BE CONSIDERED.
HINDALCO IS A WELL DESIGNED AND MANAGED COMPANY PRODUCING
NEARLY 40 PERCENT OF INDIA'S ALUMINUM. UNDER PRESENT
CONDITIONS, HOWEVER, IT WOULD BE FOOLISH TO EXPAND OUR
ALREADY CONSIDERABLE FINANCIAL EXPOSURE.

8. WE WOULD APPRECIATE BEING KEPT INFORMED AS TO OPIC'S
DISCUSSIONS WITH KAISER.
SCHNEIDER

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